

IDAHO OUTLOOK

NEWS OF IDAHO'S ECONOMY AND BUDGET

STATE OF IDAHO

DIVISION OF FINANCIAL MANAGEMENT

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Although every business cycle is unique, each can be divided into phases that are common to all cycles. The period from peak to trough is called the recession and the time from the trough to peak is known as the expansion. The first few months of an expansion is called the recovery. And the first few months of the recovery is usually called the "disappointing" recovery. This term is used, because it seems no matter how quickly the economy recovers, it is never fast enough. Even the current recovery has been tagged as disappointing despite it following the mildest recession on record, and despite robust 6.1% real GDP growth in the first quarter this year.

So why has the current recovery been so disappointing? The employment situation is a big part of the answer. That is because the loss of one's job is the most personal impact of a recession. For most people, the endless parade of declining economic indicators is pretty abstract. But the loss of one's livelihood is very real (and terrifying). Too many Americans have experienced this firsthand. The nation's civilian unemployment rate increased from a low of 3.9% in April 2000 to 6.0% in April 2002. An increase of this size over a relatively short period is very painful. To those out of work, the recovery will not occur until they are once again gainfully employed.

It should be pointed out that the employment situation during this recovery is typical. That is, employment normally takes a while to

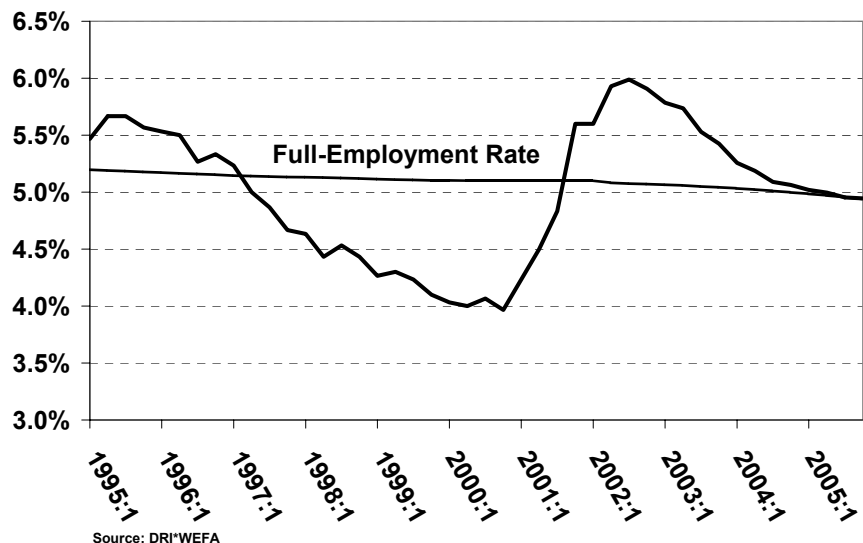
improve even after real output is growing. This is because it is expensive to add employees. Employers will hesitate expanding payrolls until they are convinced the economy is back on solid ground. In the mean time, they will resort to other measures, such as adding overtime, to meet increased business. Eventually, though, they will need to add employees.

There is some good employment news. The recession was the mildest on record, so the employment picture is better than usual. For example, this will probably be the only post-World War II recession where the unemployment rate fails to top 7.0%. It peaked at 7.8% as a result of the 1990-91 recession. Second, the June 2002 unemployment rate of 5.9% is relatively low compared to the last two decades. It averaged 5.8% through the 1990s and was an even higher 7.3% through the 1980s. Third,

the extension of unemployment benefits has eased the impact of the longer duration of unemployment. In June 2002, the average length of unemployment was 17.3 weeks, which was about a month longer than in the previous June.

As was mentioned above, the unemployment rate should not fall back to its 3.9%-trough during the forecast period. But this is not necessarily a bad thing. The return to that low unemployment rate may be undesirable because at this level the tight labor market may fan inflation fires. It may also be unnecessary to have such a low unemployment rate. Economists believe the economy is at full employment when the unemployment rate is around 5.0%. At that level, anyone who wants a job should be able to find one. It is anticipated that the unemployment rate will gradually fall and return to its full-employment level in 2004.

U.S. Civilian Unemployment Rate



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General Fund Update

As of June 30, 2002

<u>Revenue Source</u>	\$ Millions			
	FY01 Actual	FY02 Executive Estimates		FY02 Actual
		Dec. 00	Dec. 01 ¹	
Individual Income Tax	1,024.0	1,096.6	940.2	835.9
Corporate Income Tax	141.5	135.8	93.4	76.3
Sales Tax	647.3	696.3	659.4	657.1
Product Taxes ²	20.7	20.4	20.6	21.0
Miscellaneous	151.1	93.4	110.6	110.1
TOTAL GENERAL FUND³	1,984.6	2,042.5	1,824.2	1,700.4

¹ Executive estimate as adjusted for 2001 legislative action
² Product Taxes include beer, wine, liquor, and cigarette taxes
³ May not total due to rounding

General Fund revenue was \$17.9 million (9.8%) lower than expected in June. This is a continuation of the pattern that has been in place for most months of FY 2002. Revenue for the entire fiscal year is \$123.8 million (6.8%) lower than the forecast that was released in December 2001. The Individual Income Tax accounts for \$104.3 million of the FY 2002 revenue shortfall. Over half of the fiscal year shortfall (\$63.6 million) occurred in the month of April, when the Individual Income Tax was \$58.9 million lower than expected for the month.

Individual Income Tax revenue to the General fund was \$8.0 million (15.4%) lower than expected in June. June actual revenue was \$18.8 million (29.9%) lower than the same month a year ago. Individual Income Tax revenue was \$104.3 million (11.1%) lower than expected for the full fiscal year 2002. Actual Individual Income Tax revenue

was \$188.1 million (18.4%) lower in FY 2002 than FY 2001. Filing payments were actually \$0.4 million higher than expected in June. Unfortunately, withholding collections were \$4.6 million lower than expected and refunds were \$3.4 million higher than expected in June. For the full fiscal year the bulk of the Individual Income Tax problem was in filing collections, which were \$71.7 million lower than expected. Withholding collections also contributed to the year's weakness, coming in \$38.1 million lower than expected. Refunds actually were a positive factor in FY 2002, coming in \$4.6 million lower than expected

Corporate Income Tax revenue was \$8.4 million (43.1%) lower than expected in June, bringing the full fiscal year shortfall to \$17.1 million (18.3%). The Corporate Income Tax shortfall for FY 2002 was the result of estimated payments that were \$38.0

million lower than expected. Fortunately, Corporate Income Tax refunds were \$9.0 million lower than expected and filing payments were \$12.1 million higher than expected.

Sales Tax collections were \$1.2 million (2.1%) lower than expected in June, and \$2.3 million (0.3%) low for the full fiscal year.

Product taxes were \$0.1 million ahead of the target in June, bringing the 2002 fiscal year result to \$0.4 million higher than forecast. The Miscellaneous category was \$0.3 million below the target for June, bringing the full year result to a shortfall of just \$0.5 million. Within the miscellaneous category, interest earnings were \$5.2 million lower than expected while the Insurance Premium Tax was \$2.3 million higher than expected and agency transfers were \$2.5 million higher than anticipated for the fiscal year.